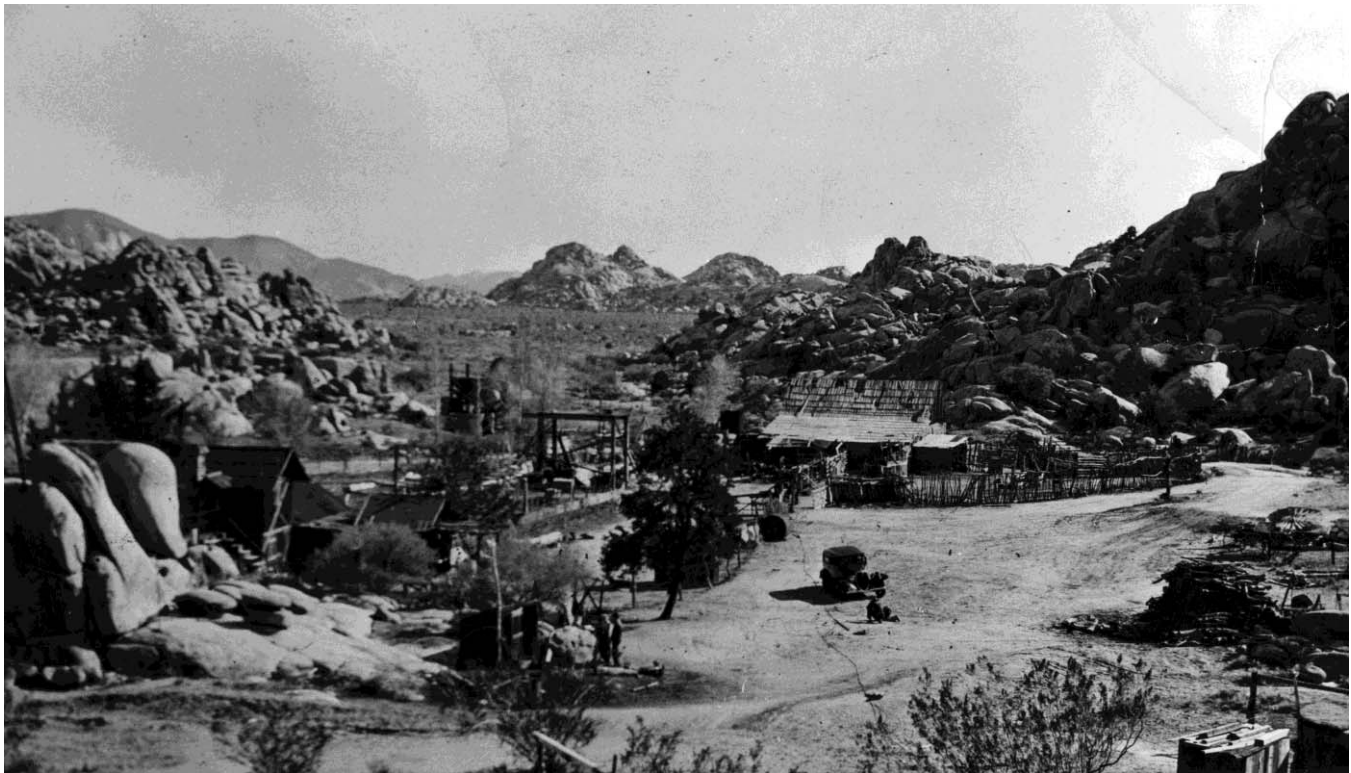




## **SECTION 3**

# **DESCRIPTION OF ACCOUNTING AND FINANCIAL REPORTING SYSTEM**



**Desert Queen Ranch 1890's**

# DESCRIPTION OF ACCOUNTING AND FINANCIAL REPORTING SYSTEM

Twentynine Palms accounting system is organized on the basis of Accounting Funds, each of which is considered a separate government activity with its own accounting entity. The operations of each Accounting Fund consists of a separate set of accounts that comprise its revenues, expenditures, assets, liabilities and fund equity or fund balance. From a private sector perspective, each Accounting Fund can be considered a wholly owned subsidiary of the City or a separate independent business, which must support all of the direct and indirect costs of providing services to the public.

Government resources are allocated and accounted for in these individual Accounting Funds based upon (1) the purpose for which they are to be spent, and (2) the means by which spending activities are controlled. This accounting system is used to aid the City Council, City Manager and department heads to demonstrate compliance with finance-related legal and contractual requirements. A minimum number of Funds are established consistent with legal and operating requirements “since unnecessary Funds result in inflexibility, undue complexity and inefficient financial administration.”<sup>109</sup> **All City Accounting Funds are included in the annual budget and all revenues and other financing sources are appropriated by the City Council each year in the annual budget.**

**All Accounting Funds are included in the City’s annual audited financial statements, reviewed by the City’s independent certified public accountants.**

The City of Twentynine Palms currently uses 20 Accounting Funds. These Accounting Funds are put into three broad categories called Accounting Fund Types. The three Accounting Fund Types operated by the City of Twentynine Palms are Governmental Fund Types for tax-supported activities, Proprietary Fund Types for business-type activities and Fiduciary Fund Types for governmental funds held in trust as Private Purpose Trust Funds or Agency Trust Funds. These Fund Types are broken down into the individual Accounting Funds as described below.

## **Governmental Fund Types (Tax-Supported Activities)**

The Governmental Fund Type is used to account for the acquisition of revenues, expenditures, assets and liabilities of tax-supported activities. In the City of Twentynine Palms, the Governmental Fund Type is divided into the General Fund, Special Revenue Funds, and Capital Projects Funds.

**1. General Fund.** **The General Fund is the primary operating Fund of the City for the delivery of general municipal services. It is used to account for all financial transactions and resources of the general government except those required by the General Accounting Standards Board (GASB) or federal, state or city law or regulation to be accounted for in another Fund.** The City of Twentynine Palms operates only one General Fund and it is used to account for most tax-support activities. Expenditures for such functions as administration, police, community development, building inspection, code enforcement, recreation, streets, roads and some other public works activities are financed by the General Fund.

**2. Special Revenue Funds.** Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. It does not include accounting for financial resources in Fiduciary Funds or major construction projects accounted for in

---

<sup>109</sup>National Council on Governmental Accounting (NCGA) Statement No. 11.

the City's various Development Impact Fee Capital Projects Funds. These restrictions usually arise from state legislation or from federal, state and county grants. **The City operates 11 Special Revenue Funds. They are:**

**A. Community Development Block Grant (CDBG) Program.** The Community Development Block Grant (CDBG) Special Revenue Fund is used to account for all activities, revenues and expenditures related to the receipt of federal Community Development Block Grant (CDBG) funds from the U.S. Department of Housing and Urban Development (HUD). The purpose of these federal funds is to achieve "national objectives" that include (1) assisting low- and moderate-income people, (2) eliminating urban blight or (3) to meet urgent needs.

**B. Traffic Safety Special Revenue Fund.** Mission of the Traffic Safety Special Revenue Fund is to account for revenues generated by traffic violations in the City of Twentynine Palms and expenses incurred to implement traffic safety measures within the community to reduce accidents. Funds cannot be used to fund police or deputy salaries.

**C. Gasoline Tax Special Revenue Fund.** This Accounting Fund is used to account for revenues and the related expenditures limited to a variety of highway and transportation purposes. Revenues are derived from gasoline taxes collected under Sections 2103, 2105, 2106, 2107 and 2107.5 of the California Streets and Highways Code. These revenues come from gasoline taxes placed on motor vehicle fuels. Allocations are generally distributed by population. Funds can only be used for construction and maintenance of City streets and roads.

**D. Proposition 42 Traffic Congestion Relief Special Revenue Fund.** This Accounting Fund is used to account for the revenues and expenditures to construct, repair and maintain streets, roads, bridges, traffic control devices, sidewalks, bike lanes and other transportation facilities to relieve traffic congestion within the City of Twentynine Palms. In order to receive Proposition 42 allocations, cities must be in compliance with the maintenance of effort (MOE) provision of the law. This provision requires cities to continue to expend from the General Fund the average of General Fund monies allocated to streets during FY1997, FY1998 and FY1999.

**E. Bikeways and Sidewalks Article 3 Special Revenue Fund.** The mission of the Bikeways and Sidewalks Article 3 Special Revenue Fund is to account for all activities, revenues and expenditures related to Twentynine Palms' allocation of Article 3 funds from ¼ of one cent statewide sales tax set aside for transit, bike paths and pedestrian facilities and capital projects related to streets and roads as part of the 1972 Transportation Development Act (TDA).

**F. AB 2766 Motor Vehicle Surcharge Special Revenue Fund.** The mission of the AB 2766 Motor Vehicle Surcharge Special Revenue Fund is to account for the revenues, expenditures, assets and liabilities related to the Mojave Desert Air Quality Management District (MDAQMD) Mobile Emissions Reduction Grant Program to improve the quality of the air in the High Desert by funding local, cost-effective projects to upgrade heavy-duty diesel equipment. Assembly Bill AB 2766 authorized the Mojave Desert Air Quality Management District (MDAQMD) to impose up to a \$4 motor vehicle registration fee to meet new responsibilities mandated under the California Clean Air Act (CCAA).

**G. Transportation Development Act (TDA) Special Revenue Fund.** The City uses this Accounting Fund to account for all activities, revenues and expenditures related to Twentynine Palms' allocation of State Transportation Assistance Funds (STA) and the ¼ cent statewide sales tax set aside for transit, bike paths and pedestrian facilities and capital projects related to streets and roads.

**H. Lighting and Landscaping Districts Special Revenue Fund.** The mission of the Lighting and Landscape Assessment Districts Special Revenue Fund is to account for all activities, revenues, expenditures, assets and liabilities in providing maintenance, servicing, and operation of landscape improvements, median strip improvements, parks improvements, graffiti removal and associated activities located within the public right-of-way and dedicated landscape easements in the City of Twentynine Palms Lighting and Landscape Assessment Districts.

**I. Public Access TV Special Revenue Fund.** The mission of the Public Access TV Special Revenue Fund is to account for all activities, revenues, and expenditures associated with collecting and spending cable television franchise fees of 1% in support of public, educational governmental purposes consistent with state and federal law. Section 5.04.020(b) of the Twentynine Palms Municipal Code states that “any franchisee operating within the boundaries of the City of Twentynine Palms shall pay an additional fee to the City equal to one percent (1%) of the gross revenue of that state franchisee, which fee shall be used by the City for public, educational and government purposes consistent with State and Federal Law.”

**K. Landfill/Land Use Special Revenue Fund.** The City uses the Landfill/Land Use Special Revenue Fund to account for solid waste revenues including grant revenues, and landfill tipping fee revenues from haulers from outside the county as well as expenses for abandoned vehicle abatement, dangerous building abatement, graffiti removal, illegal dumping, recycling programs, hazardous household waste programs, litter reduction and expenses related to the Mojave Desert and Mountain Integrated Waste Joint Powers Authority.

**L. Redevelopment Agency Low- and Moderate Income Housing Special Revenue Fund.** The mission of the Low- and Moderate-Income Housing Special Revenue Fund in the Twentynine Palms Redevelopment Agency is to account for all activities, revenues, expenditures, assets and liabilities used for increasing or improving housing for low- and moderate-income households.

**3. Capital Projects Funds.** Capital Projects Funds are used to account for financial resources to be used for the purchase of major pieces of equipment and the acquisition or construction of major capital facilities (other than those required to be financed by Proprietary Funds and Fiduciary Funds). The primary purposes of Capital Projects Funds are to account for major purchases, major construction projects, to enhance understanding of capital activities and avoid the distortion of revenue and expenditure trend data in the General Fund or Special Revenue Funds. **The City operates five Capital Project Funds. They are:**

**A. General Capital Projects Fund.** The City uses a General Capital Projects Fund to account for activities related to the construction of major capital facilities (other than those that are constructed in the various Development Impact Fee Funds or in the Twentynine Palms Redevelopment Agency). Construction projects can include roads, curb and gutters, sidewalks bridges, buildings and other general infrastructure.

**B. Curb, Gutter and Sidewalk Development Impact Fees Capital Projects Fund.** The City uses a Curb, Gutter and Sidewalk Development Impact Fees Capital Project Fund to account for all development impact fee revenues and expenditures paid by residential, commercial and industrial developers in situations where the location, geography or other factors preclude the installation of these off-site improvements at the time of development. Monies collected from this Accounting Fund are used exclusively to install these improvements and may not be used to fund salaries and benefits or to pay for on-going maintenance and operations.

**C. Fire Development Impact Fees Capital Projects Fund.** The City of Twentynine Palms uses this Accounting Fund to record revenues and expenditures for fire protection impact fees collected from new developments built in the City pursuant to the State Mitigation Fee Act (Government Code 66000 et. Seq.) . Expenditures of fire protection impact fees can only be for the construction and improvement of public fire protection buildings and facilities as well as the purchasing of equipment needed for new developments constructed in the City.

**D. Combined Measure I Capital Projects Fund.** The purpose of the Combined Measure I Capital Projects Fund is to account for all activities, revenues and expenditures related to Twentynine Palms' allocation of Measure I one half cent retail transaction and use tax to construct, repair, rehabilitate and maintain streets, roads, bridges, traffic control devices, sidewalks, bike lanes and other transportation facilities. Measure I Capital Project Fund is distributed by the San Bernardino Associated Governments (SANBAG) and is based on an expenditure plan.

**E. Redevelopment Agency Capital Projects Fund.** The mission of the Twentynine Palms Redevelopment Agency Capital Projects Fund is to account for all activities, revenues, expenditures, assets and liabilities for the purpose of securing commercial and industrial development for job creation and revitalization of blighted residential, commercial or industrial areas in the City of Twentynine Palms. The Twentynine Palms Redevelopment Agency is a blended component unit of the City of Twentynine Palms, although technically it is a separate government unit under California law. It was established in 1993 pursuant to the Community Redevelopment Law of the California and the California Health and Safety Code to eliminate urban blight and administer the City's redevelopment activities and projects. California's Community Redevelopment Law (Chapter 710, Statutes of 1951) was enacted by the California Legislature after approval of the voters of Article XVI, Section 16 of the California Constitution. The objective of the law is to allow redevelopment of those areas found in many communities that have suffered from unsafe, unfit, deteriorated, and economically dislocated properties.

### **Proprietary Fund Types (Business-Type Activities)**

Proprietary Funds are used to account for the resources collected and used for business-type activities of the City of Twentynine Palms. Proprietary Funds can be divided into Enterprise and Internal Service Funds.

**1. Enterprise Funds.** Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to a private business enterprise where fees are charged to external users and the intended purpose of the City is that either (1) the cost (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; (2) or where the City has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. In accordance with Government Accounting Standards Board (GASB) Statement No. 20, the City has elected to apply only those applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, in accounting for its enterprise operations. **The City of Twentynine Palms does not operate any Enterprise Funds.**

**2. Internal Service Funds.** Internal Service Funds are used to report any activity that provides goods or services to other Funds, departments, or agencies of the Twentynine Palms Municipal Government, its component units, or to other governments on a cost reimbursement basis. **The City of Twentynine Palms has two Internal Service Funds. They are:**

**A. Risk Management Internal Service Fund.** The Mission of the Risk Management Internal Service Fund was to account for all revenues and expenditures related to the City's liability coverage, workers' compensation coverage, property coverage and bond insurance coverage. The City pays an annual premium to the Public Agency Risk Sharing Authority (PARSAC). **This Accounting Fund will be discontinued in FY2012.**

**B. Equipment Purchase Internal Service Fund.** The purpose of the Equipment Purchase Internal Service Fund was to account for the financial resources used to purchase and dispose of cars, trucks, heavy equipment and rolling stock used in City operations and to provide City services. City Departments would pay into this Accounting Fund each year whether or not they bought new vehicles or heavy equipment. When the department needed to purchase new equipment, they could draw upon the funds that had accumulated in this Accounting Fund. **This Accounting Fund is being discontinued in FY2012 and the purchase of vehicles and heavy equipment will be accounted for in the appropriate Special Revenue Fund or Capital Projects Fund.**

### **Debt Service Fund**

**Debt Service Funds:** Debt service funds are normally used to build up reserves over a period of time so cash will be available to repay principle and interest on long-term debt as it comes due. The term is used more loosely when applied to California redevelopment agencies, where it is used to accumulate the 80% portion of the tax increment. In this case, it is a hybrid of a Special Revenue and a debt service fund. **The Twentynine Palms Redevelopment Agency operates a single Debt Service Fund.**

### **Fiduciary Fund Types (Resources Held in Trust)**

Fiduciary Funds are divided into Private Purpose Trust Funds and Agency Trust Funds.

**1. Private-Purpose Trust Funds.** Private-Purpose Trust Funds are used to account for assets held by the City as a trustee or an agent on behalf of individuals, private organizations or other governments. Private Purpose Trust Funds cannot be used to support the government's own activities. **The City operates no Private Purpose Trust Funds.**

**2. Agency Trust Funds.** Agency Trust Funds are used to account for assets that the City holds for others in an agency capacity and do not present any results of operations. These Funds are used to account for situations where the role of the City is purely custodial. **The City currently operates no Agency Trust Funds.**



**Oasis of Mara photograph by Harlow Jones**